FDIC State Profile

Summer 2005

California

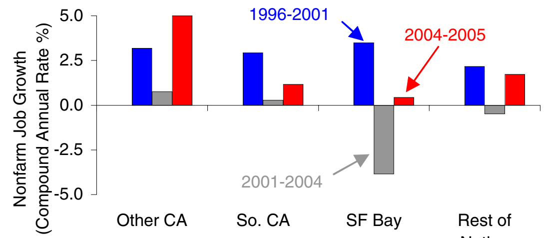
California job growth accelerated to 1.7 percent during the year ending first quarter 2005.

- The business services and construction sectors contributed most to growth, but all sectors except government and information added jobs during the last year. Going forward, California job growth is expected to stabilize near its current pace.[1]
- Job gains were unevenly distributed across the state as areas outside of **Southern California** and the **Bay Area** reported the fastest year-over-year growth (See Chart 1).
- Base Realignment and Closure (BRAC) recommendations include 36 of the state's facilities, two-thirds of which could experience a net loss in staffing. The largest potential cuts affect facilities in the **Riverside-San Bernardino**, **Ventura**, and **San Diego** markets. As proposed, direct BRAC-related job losses could approximate 2,000 positions statewide.

Commercial real estate (CRE) conditions improved, but some risks remain.

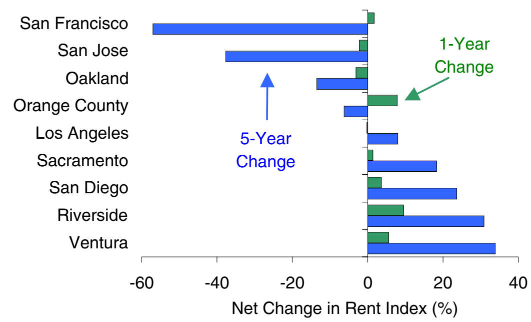
- First quarter vacancy rates generally strengthened across office and industrial markets. Service sector job gains boosted office demand; but downtown **Sacramento**, San Diego, and **San Jose** reported slight year-over-year office vacancy rate increases. Trade activity supported new industrial space, but future additions to stock may increase availability rates in Riverside and Sacramento.
- Office property cash flows in the San Francisco Bay Area may face pressure as long-term leases signed during the pre-recession boom are renegotiated. These office markets experienced the most severe drops in rents (See Chart 2). Moody's projects that the magnitude of rent losses may signal higher default probabilities among Bay Area office properties during the next ten years.[2]
- Most of California's major multi-housing markets reported low and declining vacancy rates during the past year.

Chart 1: Job Growth in Southern California and Bay Area Trailed Rest of the State and Nation



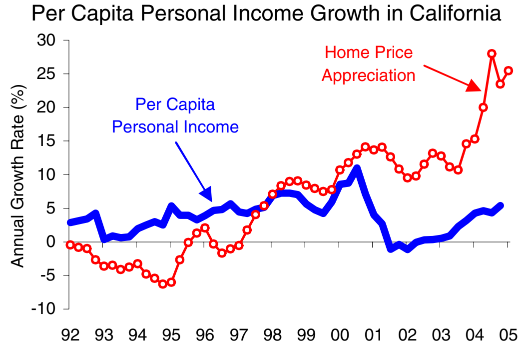
Note: So. CA includes the Los Angeles, Santa Ana, San Diego, Riverside, Ventura, Santa Barbara, and El Centro Metropolitan Areas (MAs); SF Bay Area includes the San Francisco, Oakland, San Jose, Santa Cruz, Santa Rosa, Vallejo, and Napa MAs.
Source: Bureau of Labor Statistics

Chart 2: San Francisco Bay Area Office Rents Remain Well Below Peak Levels



Source: Torto Wheaton Research (through first quarter 2005)

Chart 3: Home Price Appreciation Far Outpaced Per Capita Personal Income Growth in California



Source: Bureau of Economic Analysis, Office of Federal Housing Enterprise Oversight

[1] Forecast source is Economy.com.
[2] Moody's Investor Service, "US CMBS: Default Probability of Office Loans Varies by Leases In-Place and Position in Local Market Cycle," March 16, 2005.

However, Torto Wheaton Research expects supply to outpace absorption, increasing vacancy rates by 2007.

- Declining capitalization rates over the past few years have contributed to rising commercial property values. However, any interest rate increases have the potential to pressure capitalization rates and property values prospectively, all else equal.

- California-based insured institutions reported the second highest concentration of CRE loans[3]-to-Tier 1 capital in the nation. However, CRE credit quality remained strong.

Home price appreciation accelerated.

- After moderating at year-end 2004, annual home price growth in California accelerated to 25 percent in first quarter 2005, outpacing income growth (See Chart 3).

- Every metropolitan area in the state reported double-digit home price gains during the year-ending first quarter 2005 (See Map 1) and **Bakersfield**, **Visalia**, **Salinas**, Riverside-San Bernardino, **Stockton**, **Merced**, and **Fresno** ranked among the top ten metropolitan areas nationwide. These and 14 other California markets were among the 55 metropolitan areas recently identified by the FDIC as "boom" housing markets.[4]

- According to PMI Mortgage Insurance Co., the likelihood of near-term home price declines increased significantly during 2004 in **Oakland**, San Diego, **Santa Ana**, **Los Angeles**, and Sacramento.[5]

- Median 1-4 family mortgage concentrations remained low at 53 percent of Tier 1 capital. Only one-quarter of California-based institutions reported concentrations exceeding 100 percent, compared with two-thirds nationwide. Although banks report relatively modest investments in residential mortgages, many remain vulnerable to the housing market because of construction and development (C&D) loan portfolios, which often finance homebuilding.[6]

- Adjustable-rate mortgages increased as a share of both originations and commercial bank portfolios. Some of these borrowers may be vulnerable to rising debt service requirements should interest rates increase (See Chart 4).

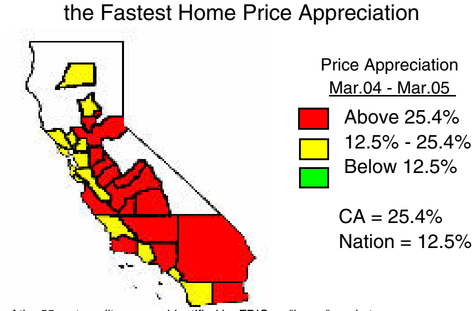
Earnings performance and asset quality improved.

- The median return on assets (ROA) improved to 1.14 percent during first quarter 2005, the state's highest first quarter performance in more than a decade.

- Year-to-date net interest income expanded as asset yields outpaced funding costs (See Chart 5). Overhead ratio declines offset lower fee income ratios and security gains.

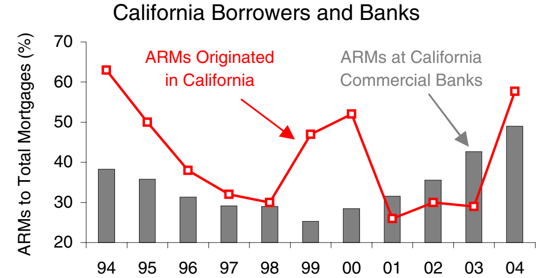
- Among institutions open at least three years, the past-due loan ratio improved modestly year-over-year to 0.59 percent. Delinquencies increased slightly among San Francisco Bay Area institutions, but improved elsewhere.

Map 1: Southern and Central California Reported the Fastest Home Price Appreciation



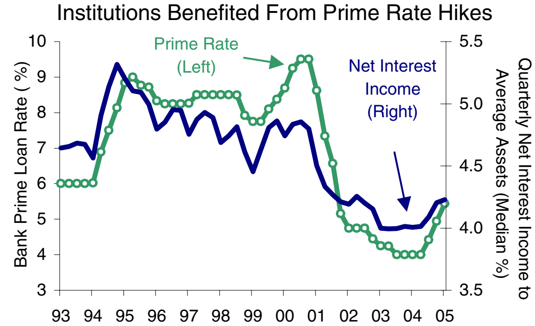
* 21 of the 55 metropolitan areas identified by FDIC as "boom" markets with *inflation-adjusted* house price growth of at least 30 percent between 2001 and 2004 are in California. Sources: Office of Federal Housing Enterprise Oversight; FDIC

Chart 4: ARM Usage Increased Among California Borrowers and Banks



Note: Adjustable rate mortgage (ARM) originations include conventional, purchase-money mortgages tracked by the Federal Housing Finance Board (FHFB). Commercial bank ARMs reflect the median proportion of ARMs to first-lien, 1-4 family mortgages at each yearend.
Sources: FDIC and FHFB

Chart 5: Net Interest Income Among California Institutions Benefited From Prime Rate Hikes



Note: Rates are annualized.
Sources: FDIC; Federal Reserve

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[3]Commercial real estate loans include construction, multifamily, and nonfarm-nonresidential mortgages.
[4]Cynthia Angell and Norman Williams, FDIC FYI Revisited "U.S. Home Prices: Does Bust Always Follow Boom?" May 2, 2005. http://www.fdic.gov/bank/analytical/fyi/2005/050205fyi.html. A boom market is defined as one in which *inflation-adjusted* home prices rose by at least 30 percent during the 2001-2004 period.
[5]PMI Mortgage Insurance Co., "Economic and Real Estate Trends," May 2005.
[6]Because of data limitations, the proportion of construction and development mortgages related to single-family building is unknown.

California at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.7%	0.2%	-0.2%	-1.8%	3.1%
Manufacturing (11%)	0.5%	-2.9%	-5.5%	-10.6%	1.2%
Other (non-manufacturing) Goods-Producing (6%)	6.3%	5.7%	1.6%	-0.6%	9.3%
Private Service-Producing (67%)	2.0%	0.8%	0.3%	-1.6%	3.1%
Government (16%)	-0.2%	-2.1%	0.6%	3.6%	2.3%
Unemployment Rate (% of labor force)	5.7	6.4	6.8	6.6	4.7

Other Indicators	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Personal Income	N/A	5.7%	1.9%	0.3%	5.6%
Single-Family Home Permits	-6.7%	13.0%	23.4%	-1.8%	17.5%
Multifamily Building Permits	16.0%	-11.6%	51.8%	-14.7%	-8.0%
Existing Home Sales	-2.0%	11.9%	-8.3%	11.6%	-5.5%
Home Price Index	25.4%	15.3%	12.8%	9.5%	13.7%
Bankruptcy Filings per 1000 people (quarterly level)	0.82	0.92	1.04	1.08	1.12

BANKING TRENDS

General Information	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Institutions (#)	293	304	317	336	348
Total Assets (in millions)	891,589	746,541	894,662	808,780	714,813
New Institutions (# < 3 years)	43	44	36	34	34
Subchapter S Institutions	25	24	22	18	14

Asset Quality	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.48	0.50	0.88	1.01	1.19
ALLL/Total Loans (median %)	1.23	1.25	1.37	1.41	1.41
ALLL/Noncurrent Loans (median multiple)	3.39	3.05	2.80	2.74	2.53
Net Loan Losses / Total Loans (median %)	0.01	0.02	0.03	0.05	0.05

Capital / Earnings	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Tier 1 Leverage (median %)	9.53	9.48	8.87	8.65	8.79
Return on Assets (median %)	1.16	1.13	1.15	1.14	1.15
Pretax Return on Assets (median %)	1.79	1.79	1.80	1.76	1.79
Net Interest Margin (median %)	4.91	4.86	5.06	5.12	5.24
Yield on Earning Assets (median %)	7.08	7.05	7.29	7.58	8.14
Cost of Funding Earning Assets (median %)	1.96	1.98	2.24	2.53	3.00
Provisions to Avg. Assets (median %)	0.20	0.20	0.21	0.22	0.20
Noninterest Income to Avg. Assets (median %)	0.60	0.69	0.72	0.72	0.72
Overhead to Avg. Assets (median %)	3.68	3.76	3.72	3.74	3.76

Liquidity / Sensitivity	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Loans to Assets (median %)	69.6	67.9	67.3	67.4	66.6
Noncore Funding to Assets (median %)	21.1	19.3	20.7	21.7	20.7
Long-term Assets to Assets (median %, call filers)	12.6	17.8	15.5	13.3	12.6
Brokered Deposits (number of institutions)	109	97	103	89	90
Brokered Deposits to Assets (median % for those above)	3.2	3.0	3.7	3.6	3.0

Loan Concentrations (median % of Tier 1 Capital)	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Commercial and Industrial	96.6	95.7	105.6	110.3	124.9
Commercial Real Estate	447.5	438.6	439.1	418.1	388.4
Construction & Development	68.5	59.3	59.2	60.7	51.7
Multifamily Residential Real Estate	18.8	18.5	15.9	15.2	13.4
Nonresidential Real Estate	267.6	268.5	284.2	265.6	235.3
Residential Real Estate	52.7	50.6	60.7	60.3	62.3
Consumer	5.8	7.2	10.9	14.7	16.3
Agriculture	0.0	0.0	0.0	0.0	0.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Los Angeles-Long Beach-Santa Ana, CA	153	246,702	< $250 million	152 (51.9%)
San Francisco-Oakland-Fremont, CA	83	154,040	$250 million to $1 billion	77 (26.3%)
San Jose-Sunnyvale-Santa Clara, CA	48	47,229	$1 billion to $10 billion	53 (18.1%)
San Diego-Carlsbad-San Marcos, CA	67	43,813	> $10 billion	11 (3.8%)
Stockton, CA	24	36,847		